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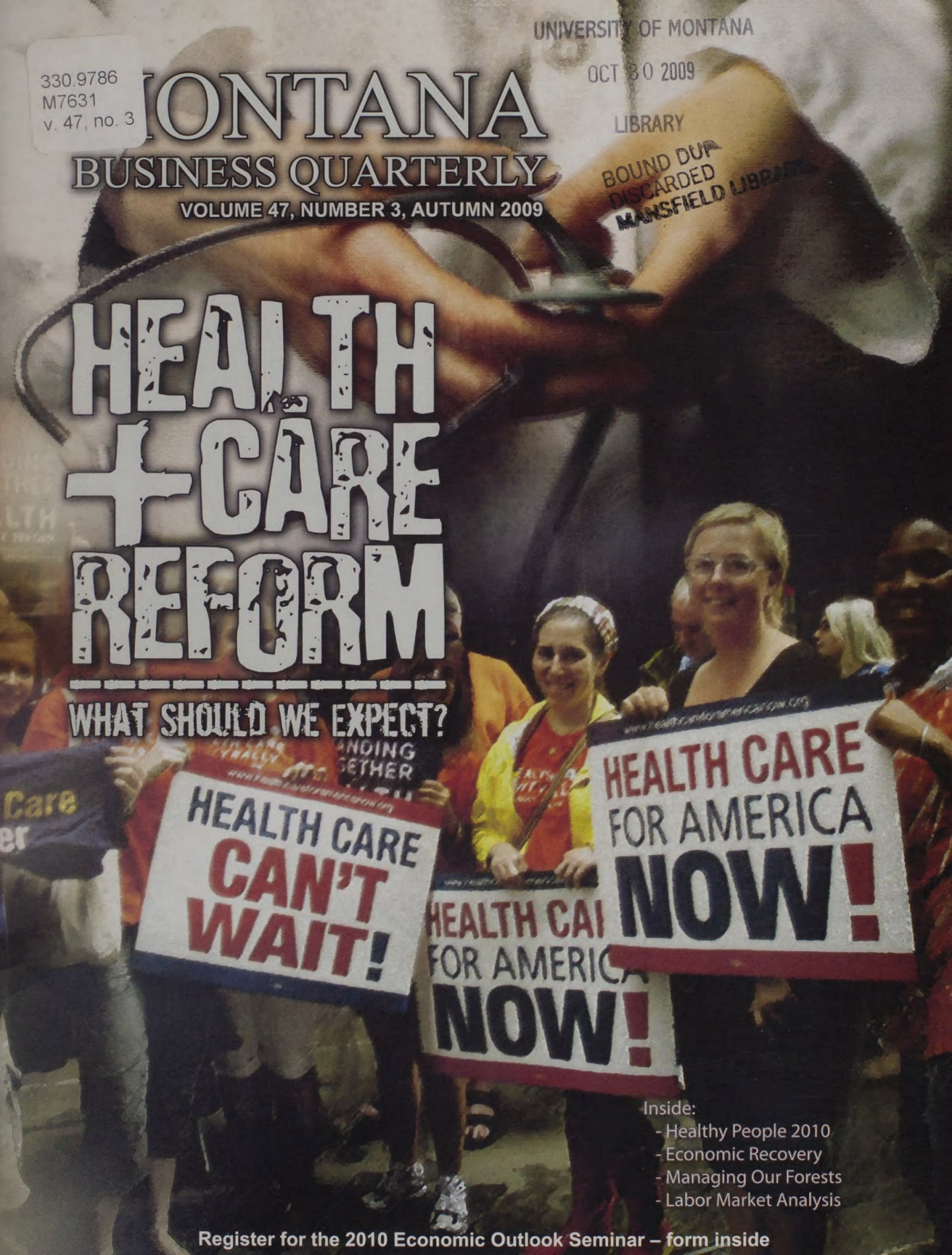
HEALTH CARE REFORM

WHAT SHOULD WE EXPECT?



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BUREAU OF BUSINESS AND ECONOMIC RESEARCH

ABOUT THE BUREAU OF BUSINESS AND ECONOMIC RESEARCH

The Bureau of Business and Economic Research has been providing information about Montana's state and local economies for over 50 years. Housed on the campus of The University of Montana-Missoula, the Bureau is the research and public service branch of the School of Business Administration. On an ongoing basis, the Bureau analyzes local, state, and national economies; provides annual income, employment, and population forecasts; conducts extensive research on forest products, manufacturing, health care, and Montana Kids Count; designs and conducts comprehensive survey research at its on-site call center; presents annual economic outlook seminars in cities throughout Montana; and publishes the award-winning Montana Business Quarterly.

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MESSAGE FROM DEAN LARRY GIANCHETTA

We, in the School of Business Administration, have an enormous sense of pride in hosting the Bureau of Business and Economic Research (BBER). In my role as dean I have an opportunity to visit many campuses and observe their respective economic research bureaus. As a result of those observations, it is easy to understand why our own Bureau is recognized for the content and quality of its publications. In 2008, the Association of University Business and Economic Researchers (AUBER) awarded 1st place recognition in five categories. The Bureau took home three of the five 1st place awards: one for excellence in publication for the Montana KIDS COUNT data book, another for excellence in publication for the Economic Outlook Seminar booklet, and a third for excellence in publication for the Montana Business Quarterly.

Obviously the Bureau has an outstanding editorial and graphics staff. The "secret to our success" is the integrated approach that the BBER takes in this process. As you read the Montana Business Quarterly, or attend one of the Bureau's Economic Outlook Seminars held annually throughout the state, you will be impressed with the number of faculty and directors who come from various units of the Montana University System. Just two of many examples are Scott Rickard, director of the Center for Applied Economic Research at Montana State-Billings, and Myles Watts, professor of agricultural economics and economics at Montana State University-Bozeman. For another example of the integrated approach taken by the Bureau, read through the membership of the BBER advisory board roster. This group comes to campus twice a year in an advisory role. Our current advisory board includes Garth Kallevig, president, Stockman Bank in Sidney; Myles Watts, professor of agricultural economics and economics, Montana State University; Dan Villa, education policy advisor, Office of the Governor; Barbara Stiffarm, executive director of Opportunity Link, Havre; Dick King, executive director, Missoula Area Economic Development Corporation; Dave Gates, vice president at NorthWestern Energy, Butte; Todd Younkin, bureau chief, Montana Department of Labor and Industry; and Larry White, director, School of Public and Community Health Sciences, The University of Montana.

BBER may be one of the very best examples of using industry experts throughout the Montana University System. The result is a Bureau of Business and Economic Research that is recognized as one of the very best research bureaus in the nation.

Larry Gianchetta

Dean, School of Business Administration
The University of Montana

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Health Care Reform
What Should We Expect?

by Gregg Davis

Background

During the 1920s, there was a running joke: "There are two classes of people in hospitals: those who entered poor and those who leave poor." Five years later, private health insurance emerged. Today, particularly for those without health insurance, the problems remain the same. And suspicion of the industry adds to our angst. A 2006 Harris Poll found that between 40 percent and 50 percent of the American public believes health insurance companies, managed care, and drug makers are among the least trustworthy organizations in the United States. A University of Connecticut professor even developed a "Healthcare Economic Misery Index" to gauge the amount of misery caused by the lack of health care insurance and the rising cost of health care.

Almost all agree that something systemic is inherent in health care that makes it different from other sectors in the economy. In polls across the country, fixing health care is right up there with fixing the economy. Emotions are high on both sides of the health care debate, as evidenced by President Obama's visit to Belgrade this summer where both supporters and opponents of the Obama-style reform showed up in large numbers. It's not only an emotional issue but a financial one as well.

Google health care reform, and over 22 million options are generated. Concern over health care is not new. Over the last four decades, growth in the cost of delivering health care has persistently exceeded the overall average growth rate in the economy by nearly 2 percentage points. So as the size of the pie grows for the economy, the size of the slice gobbled up by health care is increasing even faster. That means less pie for everything else, clearly an unsustainable trend.

Compared to other developed economies, we spend more on health care in absolute terms (nearly $8,000 per capita) and in relative terms (16 percent of our GDP). Absent reform, our country will spend nearly 20 percent of GDP on health care by 2017. That doesn't leave much for everything else we desire and need.

Polls support the notion that to most people health care is a merit good, something that all are entitled to and no different than the right to food, shelter, and clothing. But not everyone has the same access to health care. In Montana, access isn't just limited by lack of insurance or cost but also by geography, and in some cases the lack of health care providers. Montana has 210 federally designated Health Professional Shortage Areas. These areas have a shortage of primary medical care, dental, or mental health providers. Only five of the state's counties escape designation as a Medically Underserved Area, an area that has too few primary care providers, high infant mortality, high poverty and/or elderly populations. For residents living in these areas, access is problematic, whether it's due to geographical or income status.

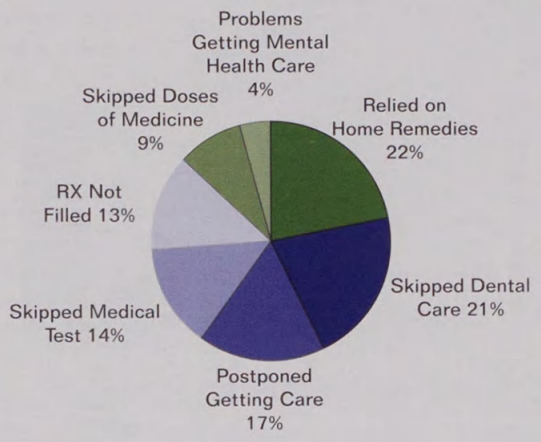
What Issues are Behind Health Care Reform?

The issues driving health care reform are basically twofold: access to health care for the uninsured and cost. A recent Kaiser Health Tracking Poll shows that more than half of all Americans have cut back in some way on medical spending as a result of health care costs. (Figure 1). Over a third of households state they have used over-the-counter drugs or relied on home remedies instead of seeing a doctor. A similar number have canceled dental care. Other reactions to the cost of health care included skipping recommended doses of medicine or not filling prescriptions at all. Almost three of 10 people report postponing recommended medical care, some for a chronic illness such as diabetes and some for minor or major surgeries.

For most Americans, access to health care and its affordability are assured through employment, either as an employee or as the spouse or dependent of an employee with a provider-sponsored health care plan. This explains why many report that they are satisfied with their present health care coverage (Figure 2).

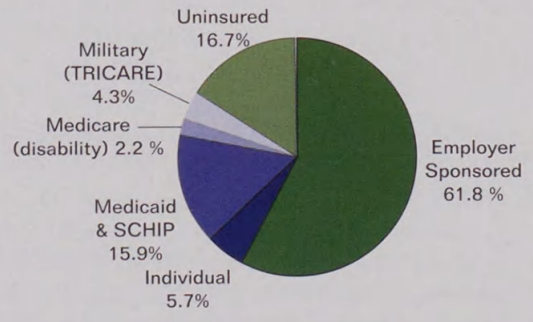
In Montana, almost six in 10 of the non-elderly population obtain their health insurance through employers. Two in 10 are uninsured, and fewer than one in 10 has individual health care coverage. But for workers in firms of fewer than ten employees, employment-based insurance may be harder to come by. Forty-nine percent of workers in firms with fewer than 10 employees held employment-based health insurance, compared to 77 percent of employees in firms with more than 100 employees. In Montana, nearly 80 percent of all private establishments have fewer than 10 employees. Nationally, only 11 percent of those without access to employer-sponsored insurance purchases coverage in the individual market. Individuals who have individual health insurance have median incomes over twice that of the uninsured, and almost 35 times the net wealth (Didem et al.).

Figure 1
Response to Health Care Costs



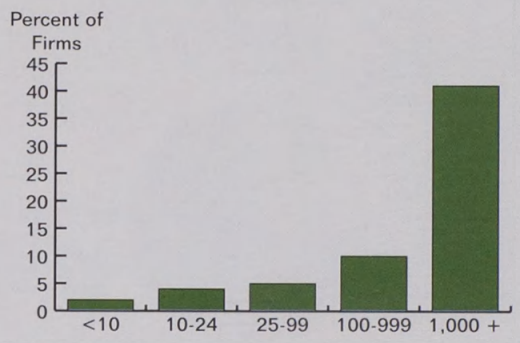
Source: The Henry J. Kaiser Family Foundation, February 2009.

Figure 2
Health Insurance Coverage for the Non-Elderly, Percent, by Source, 2008



Source: Joint Committee on Taxation, Background Materials for Senate Committee on Finance Roundtable on Health Financing, (JCX-27-09), May 7, 2009.

Figure 3
Private Firms Offering Health Insurance to Retirees, by Employee Size



Source: Employee Benefit Research Institute, Issue Brief, July 2006.

Who are the Uninsured?

According to Census Bureau estimates, 46 million people in the United States were uninsured in 2007. In Montana, a state with a population just under 1 million, nearly 150,000 are uninsured. Most estimates of the uninsured population come from the Census Bureau's Current Population Reports. Under this modeling methodology, any individuals reporting themselves as uninsured are counted, whether it is for a week, month, or year. Therefore some caution must be exercised in assuming all uninsured are without insurance for the entire year.

The profile of the uninsured is diverse but disproportionately includes the poor not already on Medicaid, part-time workers, the less educated, the young, single parents, Native Americans, and both urban and rural poor who lack the financial resources to access private care. Data provided by the Medical Expenditure Panel Survey show that even for those working full time, the lack of health insurance is related to:

- **Income** – 40.8 percent of those earning 125 percent or less of the federal poverty level are uninsured compared to only 4.2 percent of those earning over 400 percent of the federal poverty level;
- **Age** – 17.9 percent of 18-24-year-olds are uninsured compared to 8.7 percent of 50-64-year-olds;
- **Education Level** – 36 percent of those without a high school education are uninsured compared to only 6.4 percent with at least some college;
- **Employment** – 28.5 percent of the self-employed are without health insurance, compared to 3.4 percent of those working for firms with 100 or more employees.

Of the 46 million uninsured people, nearly 20 percent live in high-income households and have the economic means to buy insurance but choose not to, according to several studies (Antos). Estimates of the number of "voluntarily uninsured" vary, and the policy response required to bring these voluntarily uninsured into any insurance pool will prove to be challenging.

The Urban Institute estimates that the uninsured cost the health care system $83 billion in 2008, which is paid for through higher public subsidies and increased charges to patients with health care insurance. The uninsured also are users of the emergency room, one of the most expensive points of entry for health care delivery. In fact, the uninsured are responsible for nearly one in five hospital-based emergency room visits (U.S. Department of Health and Human Services).

Even for the Medicare-insured population, paying medical bills may be a problem. The Employee Benefit Research Group estimates that a couple – age 68 today living until average life expectancy – will need $300,000 to cover Medicare premiums and out-of-pocket expenses. Medicare covers on average only half of the health-related expenses for retirees. In addition, employer-sponsored health care insurance for retirees may not be an option in the future. According to the Agency for Healthcare Research and Quality, only 13 percent of private establishments in 2003 offered benefits to Medicare eligible retirees, down from 20 percent in 1997. As Figure 3 shows, employer-provided health care insurance for retirees is less likely the smaller the firm. So for many Montana workers, these benefits may not be offered. Other employer trends include tightening eligibility requirements for employer-provided benefits, capping benefits, and terminating subsidies altogether for workers hired or retiring after a designated date.

What's Driving Health Care Costs?

Prices everywhere are increasing. That $2.75 cappuccino that you bought this morning cost just $1.50 20 years ago. But what's different about health care prices is that they consistently run higher than general inflation in the economy. Finding ways to reduce costs isn't enough; we must address what is driving the costs.

Experts have advanced several possible root causes of health care inflation. Some argue that because we have more per capita income than other developed countries, we can afford more health care. Our productivity allows us to enjoy more choices on the health care menu. Add insurance to higher incomes, and the consumption of health care increases even more. Over utilization and misuse of health care services only add to the problem.

The favorable tax treatment of health insurance and medical expenses also fuels demand by insulating the consumer from the full cost of health care services. There is also a hidden cost imposed on the government in the form of lost tax revenues. The Joint Committee on Taxation estimates that $288 billion in tax revenue is lost each year due to the tax-exempt treatment of employer-sponsored health insurance, the deductibility of medical expenses, and the exclusion of Medicare benefits from income, health savings accounts, and other programs.

Our aging population contributes to costs by changing the way health care is used. Older people spend more on average (almost twice as much per capita) for health care than younger users. As the baby boomer population ages, future health care services will be in high demand. The Census Bureau estimates that of the 78.2 million boomers, 330 per hour turn 60.

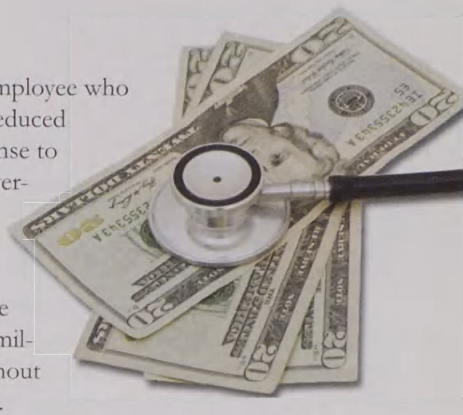
Supply side factors also contribute to health care inflation. Fee-for-service rewards providers based on the number of services provided, not necessarily on the quality, or appropriateness of care. The declining number of primary care physicians means more of us consult specialists instead of accessing lower cost levels of care first.

Finally, soaring medical malpractice premiums and the practice of defensive medicine by risk-aversive medical doctors also contribute to the rising cost of health care delivery.

What Should Health Care Reform Address?

Polls show that Americans are concerned about both cost and providing insurance for people who do not have it. Can reform achieve universal coverage? Success in Massachusetts came with higher costs than originally anticipated. In the first two years after the legislation was passed, more than half the estimated 650,000 uninsured gained coverage through many of the reform programs available to residents, but the costs were higher than expected. The Congressional Budget Office estimates that the Kennedy proposal for universal coverage would have cost nearly $1 trillion over the next decade, or $62,500 for each of the 16 million newly insured. Hawaii imposed an employer-sponsored health insurance mandate in 1974. A recent study found that the employer mandate was not an effective means for achieving universal coverage. Employers simply increased the use of part-time workers to escape the mandate. Debates on universal coverage will continue since employer-sponsored coverage has fallen every year since 2000.

Reform must also consider cost and how the programs are financed. Nothing is really free. Someone has to pay, either directly as a consumer, or indirectly as a taxpayer through higher taxes, or as an employee who accepts a lower wage, reduced hours, or both in response to higher costs for employer-provided health care insurance.



Ideally, reform will promote a system where access is improved for millions of Americans without further driving up costs. And ideally reform should finance programs without adding to the federal deficit, and ultimately, our country's growing national debt. Still another challenge is that reform should restrain cost increases without sacrificing quality or choice for the consumer. And particularly in an environment of rising unemployment, reform should increase access, control costs, and maintain choice without adding to unemployment. An Urban Institute study for the Blue Cross/Blue Shield Foundation of Massachusetts (Holahan et al.) used a regional model to estimate the impacts of universal coverage. They found that the increased spending that would accompany universal coverage would add to the income and employment base in Massachusetts. The increases in employer and employee payments, together with increased taxes to finance the program, would reduce income and employment. But the net effect was found to be positive; the positive impacts from increased health care slightly offset the negative impacts from higher taxes. This result assumed that most of the foregone consumption resulting from higher taxes was on goods and services produced outside the state, while most of the increased health care spending occurs within the state. Whether or not this scenario would play out the same nationally is questionable.

Conclusion

There is little low-hanging fruit to pick for accomplishing all that health care reform hopes to do. And it is apparent that preserving choice is important to many. A June 2009 CNN/Opinion Research Corporation poll revealed what trade-offs people were willing to make with three health care reform goals: insurance for all, choice of providers, and lower costs. Thirty percent supported a plan where costs were lowered, all were insured, but no choice was possible. When choice was allowed, but not all would be insured, the percentage favoring the plan increased to 44 percent. But a plan that allowed choice, insured all, but didn't lower costs received the most favorable approval rating, 59 percent. At least in terms of this poll, people are willing to trade cost for choice and increased access. Many of the protests against the government plan address the loss of choice many fear. This sentiment was voiced

by Scott Gottlieb of the American Enterprise Institute when he said, "Our founders thought politicians should be accountable when it comes to citizens' right to life, liberty and the pursuit of heart surgery."

Debate also will continue on the merits of an exchange, or connector, cooperative, call it what you will. Here the discussions are as varied as viewpoints on health care reform itself. Who should be included in the exchange – should it be all private insurers, all public, or a mix between the two? Would exchanges encourage competition and force prices down, or would it be the end of private insurance as we know it?

What role should price play in health care reform? An Urban Institute Health Policy Center study found that higher Medicaid reimbursement fees did not increase physician participation rates and had little impact as well on the number of office visits by Medicaid recipients (Zuckerman et al.). Reform will stand the best chance of success if all interested parties agree that changes are needed on multiple fronts.

The Iowa Committee for Value in Healthcare was on the right track when it declared, "The people who provide goods and services attempt to contain costs while offering high quality to the greatest number of consumers. The goal for health care should be no different. Ample evidence exists that improving value is possible, but not without a transformation in provider practices, purchaser coverage agreements, and patient expectations."

This may be easier said than done. Over half of us believe significant reform can occur without changing the existing delivery of health care, and an even higher percentage believe we can implement reform without driving costs up.

All markets ration goods and services in some way: price, budget, geographical access, or time in queue. Often we look at other health care systems as the answer. Germany has reformed its delivery system 14 times since 1980, and reform was again the topic in the Budestag elections in September.

> "Our founders thought politicians should be accountable when it comes to citizens' right to life, liberty and the pursuit of heart surgery."
>
> – Scott Gottlieb
> American Enterprize Institute

The Clinton administration thought they had the solution in the National Health Security Act. This act had managed care, regional alliances to negotiate lower prices, universal coverage through employer mandates and all financed through higher taxes. The program was doomed to failure, and in the words of one scholar, "Technical experts designed it, special interests argued it, political leaders sold it, journalists more interested in the political ramifications than its contents kibitzed it, advertising attacked it. There was no way for the average American to understand what it meant for them."

Reform of some shape will have to occur because our present health care cost projectory is unsustainable. Exactly when and what shape that reform takes we'll have to wait and see.❑

Gregg Davis is the director of health care industry research at the Bureau of Business and Economic Research.

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Healthy People 2010
The Montana Experience

by Gregg Davis

While Montana has achieved several of its Healthy People 2010 targets, the state struggles with a number of health care measures including childhood vaccinations, blood cholesterol screenings, Pap tests, and suicide deaths.

Healthy People 2010 is a goal-oriented set of health objectives initiated by the U.S. Department of Health and Human Services to provide a framework whereby federal, state, and local programs can assess health care progress. Healthy People 2010 has two primary goals: to increase life expectancy and the quality of life and to eliminate health disparities among various population groups.

Montana's Performance

For the 23 measures presented in Table 1 on page 9, Montana is improving in six measures, deteriorating in four measures, unchanged in 10 measures, and has no data available for three measures. Montana has achieved its Healthy People target in just three categories: the percentage of patients with treated chronic kidney failure who received a transplant within three years of renal failure; the percentage of adults age 50 and over who ever had a colonoscopy, sigmoidoscopy, or proctoscopy; and the percentage of women age 40 and over who had a mammogram in the last two years.

For Montana, the most noticeable measure in the Healthy People 2010 targets is the rate of death due to suicide. In 2005, Montana had 21.5 deaths due to suicide per 100,000 population, up from 17.7 deaths in 1999. Montana's rate is double the national rate of 10.9 deaths due to suicide per 100,000 population. In 2005, Montana reported 206 deaths from suicide, up from 162 deaths in 1999.

Health care measures where Montana is 20 percent or more shy of the Healthy People 2010 targets include lung cancer and colorectal cancer deaths; end-stage renal disease patients on a kidney transplant list; high-risk adults 18-64 who received an influenza vaccine in the past year; the high-risk 18-64 population who has ever had a pneumococcal vaccination; and suicide deaths per 100,000 population.

Healthy People 2010 targets for immunization and infectious diseases appear to be a challenge in Montana, perhaps due to the rural nature of the state and the trend toward self-reliance and independence.

Conclusion

Montana is making some progress to attaining the Healthy People 2010 benchmarks, but challenges remain. Healthy People 2010 targets for immunization and infectious diseases appear to be a challenge in Montana, perhaps due to the rural nature of the state and the trend toward self-reliance and independence. In fact, Montana ranks among the lowest of all reporting states with respect to the percentage of children 19-35 months who received all recommended vaccinations, and for the percentage of adults who received a blood cholesterol measurement in the last five years. And both measures remain largely unchanged from base periods. Suicide deaths in Montana are disproportionate by almost any measure. Suicide as a major public health problem in Montana has not gone unnoticed. Beginning in 2000, and continuing today, Montana has a statewide strategic suicide prevention plan (www.dphhs.mt.gov/amdd/statesuicideplan.pdf). This plan identifies accomplishments as well as challenges in dealing with suicides in Montana. Numerous challenges are identified and basically fall under three broad categories; the lack of statewide coordination, Montana's demographics and geography, and the lack of mental health facilities and providers.

On a positive note, Montana has achieved three of the 23 Healthy People 2010 targets and continues to make significant progress on several other measures.❑

Gregg Davis is the director of health care industry research at the Bureau of Business and Economic Research.

Montana Relative to the Rest of the Nation

Montana's progress toward Healthy People 2010 targets is one way of assessing the state's progress in health care, but how about the state's position relative to all other states? The 2008 National Healthcare Quality Report ranks states as better-than-average, average, or worse-than-average based on an individual state's performance. Of the 23 measures presented in Table 1, Montana is worse than average on seven, better than average on six, and average on seven. For three measures, there is no data available.

Montana is generally worse than average relative to the all-state regional average with respect to prevention and screening programs. Montana falls below the all-state average for blood cholesterol screenings, childhood vaccinations, Pap tests, colonoscopies, and mammograms. Among the cancers, prostate cancer deaths in Montana are worse than average compared to other states. And suicide deaths in Montana are more of a problem than in other states.

On six measures, Montana outperforms other states. The proportion of elderly receiving influenza and pneumococcal vaccines is higher than other states. Similarly, the proportion of high risk populations age 18-64 who ever received a pneumococcal vaccination is better than average. Montana also fares better than average for the proportion of the adult population 50+ years of age receiving a fecal occult blood test and the proportion of patients receiving a kidney transplant within three years of renal failure. Finally, Montana is better than average for the percentage of live-born infants with low birth weight (less than 5 lbs. 8 oz.).

On all other measures identified in Table 1, Montana is average relative to all other states.

To see how Montana fares relative to all other states on 92 health care measures, go to http://statesnapshots.ahrq.gov. On the 92 measures, Montana is improving on 43, deteriorating on only 15, and is relatively unchanged on 25. For nine of the measures, no data exist.

Table 1
Montana Performance Measures and Healthy People 2010 Targets

Measure	HP 2010 Target	-Most Recent- State Rate	-Most Recent- Data Year	-Baseline- State Rate	-Baseline- Data Year	Definition
Access to Quality Health Services						
Smoking cessation advice	72.0	No Data	2005	67.9	2001	Percentage of adult current smokers who received advice to quit smoking
Cancer						
All cancer deaths	158.6	184.4	2005	195.1	1999	All cancer deaths per 100,000 population per year
Lung cancer deaths	43.3	52.8	2005	53.4	1999	Lung cancer deaths per 100,000 population per year
Breast cancer deaths	21.3	23.3	2005	23.5	1999	Breast cancer deaths per 100,000 female population per year
Colorectal cancer deaths	13.7	17.7	2005	19.6	1999	Colorectal cancer deaths per 100,000 population per year
Prostate cancer deaths	28.2	29.5	2005	34.8	1999	Prostate cancer deaths per 100,000 male population per year
Pap tests	90.0	77.6	2006	85.7	2000	Percentage of women age 18 and over who received a Pap smear within the last 3 years
Fecal occult blood tests	33.0	30.7	2006	27.7	2001	Percentage of adults age 50 and over who received a fecal occult blood test in the last 2 years
Colonoscopy, sigmoidoscopy, or proctoscopy	50.0	54.2	2006	43.2	2001	Percentage of adults age 50 and over who ever received a colonoscopy, sigmoidoscopy, or proctoscopy
Mammograms	70.0	71.2	2006	74.1	2000	Percentage of women age 40 and over who received a mammogram in the last 2 years
Chronic Kidney Disease						
Dialysis and on kidney transplant list	25.0	14.5	2004	17.9	1999	Percentage of dialysis patients under age 70 who were registered on a waiting list for transplantation
Renal failure and kidney transplant	30.0	31.2	2002	46.6	1994	Patients with treated chronic kidney failure who received a transplant within 3 years of date of renal failure
Heart Disease and Stroke						
Blood cholesterol testing	80.0	66.7	2005	68.4	2001	Percentage of adults who received a blood cholesterol measurement in the last 5 years
HIV						
HIV deaths	0.7	No Data	2005	No Data	1999	HIV-infection deaths per 100,000 population
Immunization and Infectious Diseases						
Children fully vaccinated	90.0	73.6	2006	71.1	2000	Percentage of children ages 19-35 months who received all recommended vaccines (4:3:1:3:3)
Flu vaccine in past 12 months - age 65 and over	90.0	72.7	2006	73.4	2001	Percentage of adults age 65 and over who received an influenza vaccination in the last 12 months
Pneumonia vaccine ever - age 65 plus	90.0	71.6	2006	68.1	2001	Percentage of adults age 65 and over who ever received a pneumococcal vaccination
Flu vaccine in past 12 months - high-risk, age 18-64	60.0	34.1	2006	33.3	2001	Percentage of adults ages 18-64 at high risk (e.g., COPD) who received an influenza vaccination in the last 12 months
Pneumonia vaccine ever - high-risk, age 18-64	60.0	30.0	2006	19.8	2001	Percentage of high-risk people ages 18-64 who ever received a pneumococcal vaccination
Maternal, Infant, and Child Health						
Maternal deaths	4.3	No Data	2005	No Data	1999	Maternal deaths per 100,000 live births
Prenatal care	90.0	84.0	2005	84.4	2003	Percentage of women who completed a pregnancy in the last 12 months who received prenatal care in the first trimester
Low-weight births	5.0	6.6	2005	7.0	1998	Percentage of live-born infants with low birth weight (less than 5 lbs. 8 oz.)
Mental Health and Mental Illness						
Suicide deaths	4.8	21.5	2005	17.7	1999	Suicide deaths per 100,000 population

Source: Agency for Healthcare Research and Quality, U.S. Department of Health and Human Services.

Economic Outlook
Montana's Recovery is Closer

by Patrick M. Barkey

The forecasting business is by its very nature future-oriented. So even though evidence of the recession remains depressingly easy to find, the signs of recovery in the coming months are becoming clearer as well. The question for the Montana economy is, what will the recovery look like?

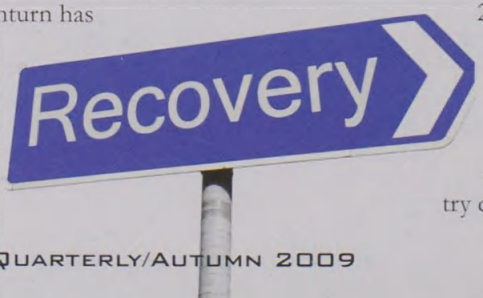
That was the question we addressed during our Economic Outlook Update program delivered in six Montana cities this summer. Just as every recession has been different, the recoveries that have followed have each been distinct. And with so much heavy lifting ahead as businesses and households attempt to repair their balance sheets by accumulating assets and retiring debt, this recovery promises to be a very slow one indeed.

Montana's Recession Experience

As the recession has played out and the signs of recovery begin to appear, two basic conclusions have emerged concerning the state's economic performance.

The first is that the recession has been milder in Montana than in most parts of the country. As shown in Figure 1, the employment decline has been much shallower in Montana than the U.S. average. Indeed, the 1.8 percent decline in payroll employment we expect to see over the entire recession in Montana is smaller than all but three other states plus the District of Columbia.

But it is equally apparent that the state did not escape the recession. Indeed, for some parts of the economy, such as the construction industry, the downturn has been just as severe in Montana as in the national economy. Both Montana and the nation have seen construction payrolls shrink by more than 20 percent since the beginning of 2007. The recession has put significant stress on state and local governments and has produced double-digit unemployment rates in some parts of the state, particularly in northwest Montana where the permanent closures of wood products facilities have idled thousands of workers.



We have made no major revisions to our forecast of the state economy that we delivered in February of this year. We correctly anticipated much of what has unfolded since then, but we have been surprised by some things.

Our February forecast factored in the passage of significant stimulus legislation, which did occur. We also expected that construction would continue to decline. Unfortunately, that forecast came true as well – housing starts statewide have now fallen to just 25 percent of their pre-recession peak levels experienced in 2005. We also guessed, with a bit less confidence, that commodity prices would end their free fall and stabilize at levels at or near those experienced just before the 2007-08 boom. In fact, those prices have remained a moving target, but the direction of change has been up for oil, copper, lead, and zinc.

On the other hand, we were surprised by the weakness in the retail economy in Montana at the close of 2008. Based on retail employment and other indicators, Montana experienced the same sharp decline in retail sales during the last quarter of 2008 that occurred in the national economy, which impacted the state's retail centers. Wages paid to retail trade workers in the fourth quarter of 2008 were down by 2.3 percent, 6.9 percent, and 9.3 percent in Missoula, Flathead, and Gallatin counties, respectively, compared to the same quarter one year earlier. But we were pleasantly surprised to find that some announced or anticipated layoffs in the state's mining industry did not take place.

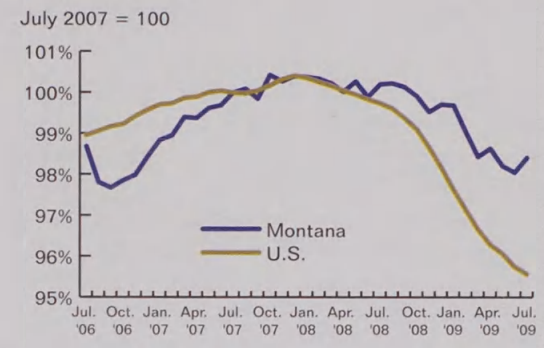
An Assessment of Montana's Economic Base

The U.S. recession will end this fall. There are several signs that it may have ended already. Housing and manufacturing have begun to rebound from their recession lows, retail sales have begun to tentatively recover, and although job losses continue in the U.S. economy, they have become significantly smaller with each passing month. The economy remains quite fragile, but a respectable rebound in stock prices and the easing of the financial panic has helped consumer confidence recover, and with it an end to the worst recession in a generation will finally arrive.

Those events will impact Montana as they affect the key industries that are the basic drivers of the state economy. In building our updated forecast, we consider the outlook for each of these industries in turn:

- **Nonresident travel.** Tourism and recreation spending were sharply down in Montana in 2008, after four years of strong growth. The industry has been impacted by cutbacks in consumer spending overall, with shorter trips and less spending the unfortunate result. The forecast is for another 2 percent decline in spending in 2009.
- **Mining.** Natural resources employers have neither grown nor shrunk their workforce, although hours and overtime have been curtailed. With the early resumption of growth in Asian markets, the outlook is cautiously optimistic.

Figure 1
Payroll Employment, Montana vs. U.S. Index, July 2007=100



Source: U.S. Bureau of Labor Statistics.

- **Manufacturing, including forest products.** Montana's forest products industry has been dealt a severe blow, as the housing slump promises to drag on. Sawmill capacity is down 30 percent, and the industry's survival in many areas is in doubt. The performance of manufacturing outside of forest products has been much better, especially in comparison to other states.
- **Agriculture.** Grain prices are down significantly from their pre-recession peaks, with only mild relief

Chronology of a Recession

What some now call the "great recession" had humble beginnings in early 2008. A correction in housing markets, primarily in the United States and a handful of other countries, was putting the brakes on consumer spending growth and stressing financial institutions. The Bush administration steered a tax stimulus through Congress. And at the Bureau of Business and Economic Research we were projecting that Montana was likely to miss the national recession altogether.

That forecast was not without precedent. In each of the previous two recessions, in 1991 and 2001, the state economy emerged relatively unscathed. And with the important exceptions of construction and forest products, Montana was on course to weather this storm as well. High commodity prices and good years for agriculture helped offset the housing-related weakness in the state economy, and the state economy managed good growth through the first half of 2008.

But the mild national recession turned much more severe in the fall of 2008. In a short space of time, the financial sector collapsed, commodity prices plummeted, and the recession became global. Consumer spending went into sharp retreat as a sense of panic gripped Wall Street, sending stock prices sharply downward and ultimately wiping out $15 trillion of households' net worth. That is when the downturn in Montana began in earnest. As depicted in Figure 1, stagnation in payroll employment turned into a significant decline beginning in August. The most recent (preliminary) data now show that Montana's seasonally adjusted payroll employment total was down by 9,000 jobs in July 2009, or about 1.8 percent, from its pre-recession peak. That decline was milder than all but three other states plus the District of Columbia. But it is still the most severe downturn the state has suffered since the 1980s.

Recession in Montana:
It Depends On Where You Live

This recession has proven to be the biggest setback for the state economy since the 1980s. Yet its impacts across the state have been remarkably varied. Western Montana has faced the full brunt of the downturn, especially the previously faster growing communities where the housing bubble's impact was especially pronounced. But some areas of the state have hardly felt the recession's impact at all.

The tiny 0.4 percent growth in inflation-corrected nonfarm labor income posted by the Montana economy last year was lower than anything the state has experienced in 20 years. And it was a jarring change from the 3.6 percent average annual growth posted by the state in the seven years prior to 2008.

But as shown in Figure 2, there was quite a gap between the high and low performing areas within Montana over the last year. From the fourth quarter of 2007 (when the recession officially began) to the fourth quarter of 2008, income growth was sharply negative for Flathead and Gallatin counties, thanks in part to their heavy dependence on real estate and construction plus the wood products layoffs and shutdowns near Kalispell. On the other hand, the government-dominated economies of Cascade and Lewis and Clark counties enjoyed positive growth, particularly in Helena. Strong agricultural prices, continued oil and gas exploration, plus additional border patrol resources gave a boost to the Hill County economy. The Missoula and Yellowstone county economies, the state's largest, both hovered close to zero. The recoveries in these separate areas can be expected to be varied as well.

- Flathead County has been the epicenter of the recession. The real estate and construction bust has been accompanied by wood products layoffs and permanent closures. Our forecasts show two years of decline (2008 and 2009) followed by a return to slow growth in 2010.
- The recession has been relatively mild in Yellowstone County. The Billings-area economy has slowed dramatically, but growth is not projected to turn negative. Billings' retailers continue to lose market share to competitors in Miles City and Bozeman.
- The deceleration in Gallatin County has been caused (so far) mostly by the real estate and construction bust. The big worry is whether or not the high-tech sector will be hit as hard as it was during the 2001 recession. The recovery in Gallatin County is likely to be lethargic because of the state government wage freeze impacting Montana State University.
- State and federal governments dominate the Lewis and Clark County economy, so the recession impacts were relatively small in the Helena area. But the state government wage freeze will mean relatively slow growth during the next two years.
- The Missoula economy has been hit by the construction and real estate bust, a slowdown in transportation, plus the permanent closure of a wood products plant. Our forecasts show two years of decline (2008 and 2009). The recovery will be slowed by the state government wage freeze impacting The University of Montana. In the long run, Missoula retailers are also facing competition from firms in Hamilton and Kalispell.
- The presence of Malmstrom Air Force Base has made the recession hardly visible in Cascade County. There has been a slight slowdown in construction, and this will lead to slightly slower growth in the future.
- Economic growth in Hill County will slow as agricultures prices have moderated and the recent increases in federal employment and oil and gas will probably not be repeated.

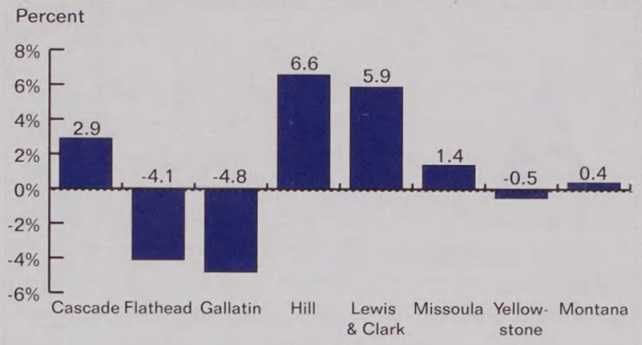
Helena, Missoula, and Bozeman will all be negatively impacted by the state government pay and hiring freeze. The BBER forecast calls for growth during the recovery to be slower than what was experienced during the pre-recession boom in all of these communities.

in input prices. Beef prices are also challenged by declines in global demand that only recently seemed to be permanently rising.

- **Federal government.** The federal presence in the Montana economy has been an important source of stability. In addition to a continuation of growth in forest and land management, as well as staffing of border facilities, the passage of the stimulus legislation has significantly expanded federally funded activities of all kinds. It is estimated that the state will receive $900 million in earmarked and unrestricted stimulus money.

These industries have always been key to the state's overall economic performance because they all draw dollars and resources from outside our borders into the state. There is also a very close relationship between variations in the industries on this short list and changes in the overall state economy.

Figure 2
Annual Percent Change in Nonfarm Labor Income in Constant Dollars, 2007Q4 - 2008Q4



Source: U.S. Bureau of Labor Statistics.

The Forecast for the Montana Economy

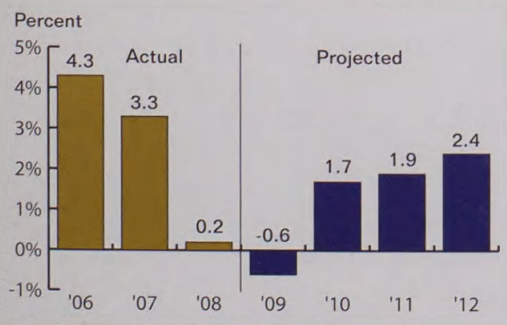
The tepid U.S. recovery and the mixed outlook for Montana's key industries translate into a recovery for the state economy that is markedly milder than the growth experienced in the pre-recession boom. Indeed, if our forecast is on the mark, the state will see income growth in each of the next two years that is no better than half of the growth averaged during the 2001-2007 period.

The recent history and our forecast for inflation-adjusted nonfarm personal income for the years 2009-2012 shown in Figure 3 reflect both revisions to recent historical data as well as our new forecast. The weakness in retail, construction, and real estate led to a significant downward revision in the growth estimate for 2008. We now estimate that the state economy saw only 0.2 percent growth in that year. As can be seen from the figure, 2009 is the trough year for the state economy, with modest growth resuming in 2010.

Given the slow pace of growth as the recovery gets started, we cannot expect to see meaningful improvement in the labor market in the months ahead. Indeed, it won't be until the end of next year before we see strong enough growth in the Montana economy to produce significant job growth and a fall in the state's unemployment rate.❑

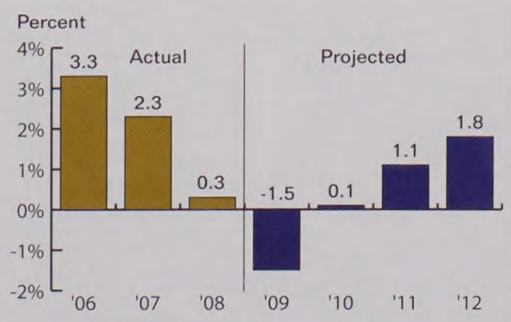
Patrick M. Barkey is the director of The University of Montana Bureau of Business and Economic Research.

Figure 3
Actual and Projected Change in Nonfarm Labor Income, Montana, 2006-2012



Source: U.S. Bureau of Economic Analysis and The University of Montana Bureau of Business and Economic Research.

Figure 4
Montana Employment Forecast, 2006-2012



Source: IHS Global Insight, Inc.

Managing Montana's Forest Lands
The Next 100 Years

by Tom Schultz and Jordan Larson

As Montana celebrates the 100th anniversary of state forestry, mills continue to close, production is at a fraction of historic levels, and the prospects for the state's wood products industry are dimmer than ever before. Controversies over timber, endangered species, fire, wilderness, public participation, and water have characterized the lack of management of the national forests for the past 20 years. Talk of a new approach for managing national forests is circulating, with foresters, environmentalists, policy experts, agency officials, and others taking part.

The new management approach advocates collaboration and reliance on local solutions. It proposes forming a Region 7 for the Forest Service that would test various management structures, including creation of a forest trust patterned after the management of state trust lands (Kemmis 2001). Montana's state trust lands are managed by the Montana Department of Natural Resources and Conservation (DNRC) to produce revenue for the trust beneficiaries while considering environmental factors and protecting the future income-generating capacity of the land. (Schultz and Butler 2003). The intent of this new collaborative trust model would be to better involve local citizens in management decisions and have greater financial accountability, while simultaneously achieving better resource management on the ground. Given the current state of the health of the national forests in the Rocky Mountain West, one would be hard pressed not to look for a new model for managing the national forests.

Production, Revenue and Stewardship

Montana's wood products industry has been present for most of the state forestry centennial. Over this time, the industry has thrived and adapted through the booms and busts of railroad construction, suburban-model housing, residue product innovations, advancements in milling technologies, globalized competition, and the passage of national environmental laws. Now as state forestry celebrates 100 years, the industry that keeps Montana's working forests busy is trying to adapt once again.

Today forestry and wood products manufacturers are sustaining approximately 9,000 jobs in Montana's economy, roughly 2 percent of the state's labor force. This sector has consistently been responsible for a higher portion of labor income than employment, indicating that the industry provides above-average wages and benefits. Employees are earning approximately 7 percent of the total income across Montana's basic industries (Polzin 2009). Even so, simply staying in business remains a difficult task for companies in this sector. Market conditions have been unforgiving. Supply shortages stemming from Forest Service policies and a two-year drought in lumber prices are squeezing the margins, if not removing them all together. Relative to most Rocky Mountain states, which have little or no industry at all, Montana's wood products industry continues to hang on, but barely.

Last year's production of 440 million board feet in timber is by scale only a fraction of the industry's historic position (Figure 1, page 15). Only 11 of the 33 mills surveyed by the Forest Service in 1995 remain today (Spelter et al. 2007). More recent mill closures have been devastating but not unexpected or out of trend.

Montana, after all, has a higher ratio of public-to-private forests. That means that a given mill operating in Montana has an operable supply radius that includes more public land than the average mill operating in the United States. This reality makes the industry more vulnerable to federal land management policy, as it can interrupt supply chains and shrink competition enough to escalate prices for non-federal timber.

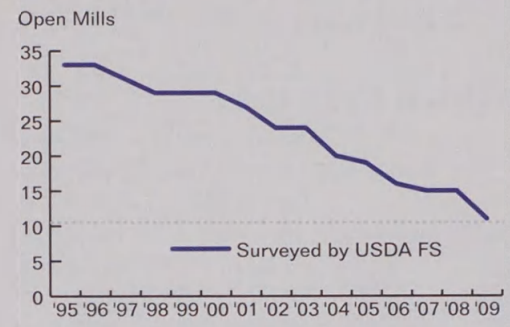
Among the supply alternatives for Montana sawmills are state forests. These lands offer a small but important supplement to federal timber. State forests, which the Montana DNRC manages in support of school trusts, have been operating with a sustained yield harvest target since 1995 (Figure 2). The purpose of the sustained yield target is to maintain a positive inventory of trees, meet broad conservation objectives, and to deliver a long-term revenue stream to school trusts. While Montana state forests currently grow 90 million board feet annually, sales targets reside at or below 53 million board feet, to ensure protection of threatened and endangered wildlife species including grizzly bear, lynx, and native species of trout. If harvest volumes exceed the sustained yield, it is usually due to backlogged operations, as sold timber can be harvested years after it is initially purchased. When wildfire or insects kill a significant amount of trees (as was the case during the fire season of 2000), salvage timber harvest tends to accelerate to capture the economic value before the stands deteriorate further.

At the same time, state forest managers look to prioritize environmental targets, including what are known as best management practices (BMPs). These practices embody professional standards for the mitigation of environmental impacts on working forest lands, watersheds, and roadways. Over the years that BMP compliance has been recorded, state forest management has maintained a leadership role in both the application and effectiveness of environmental impact mitigation (Figure 3).

In conjunction with state forest environmental goals, state forests continue to be managed as working forests. Through dual-objective management, the state has been able to capitalize on a shrinking supply of available timber in Montana. Record revenue years were set in fiscal year 2005 and 2006, as higher-priced contracts were executed in a greater hurry as mills tried to keep up with peak housing demand (Figure 4, page 17). Conditions have changed since then, but not as badly for state forests as for others. Timber revenue for the state has returned to steady state levels, fluctuating between $8 million and $10 million (MT DNRC 2008a), in part because the prices timber buyers have been paying on average have not dropped significantly since the collapse. Though fewer contracts are being sold, and new contract prices are lower, timber harvested now is being done so out of contractual obligation and at higher prices negotiated before the housing downturn.

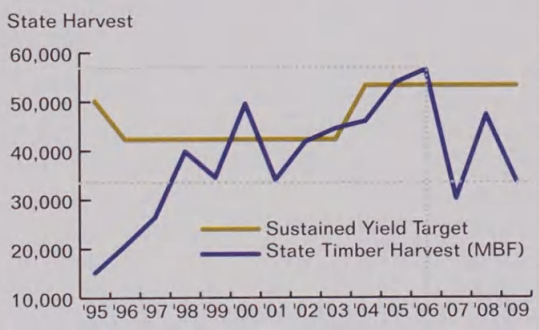
While from the state's business perspective things look sustainable, questions remain about the future of Montana's working forests. It's unclear if the industry that makes the working forest model possible will survive in the long term. If, for example, the industry continues to shrink at the rate it has over the last 14 years (an average of 1.5 mill closures per year), in less than a decade the exporting of board feet from

Figure 1
Open Mills in Montana



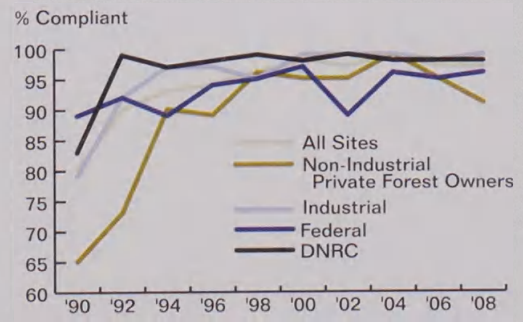
Source: Spelter et al. 1999, 2003, 2005, 2007.

Figure 2
State Forest Timber Harvest With Sustained Yield



Source: Montana Department of Natural Resources and Conservation.

Figure 3
Montana Best Management Practices Compliance Rates

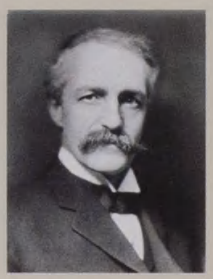


Source: Montana Department of Natural Resources and Conservation.

Two Forestry Pioneers Whose Legacies Remain

Gifford Pinchot

The storied history of Montana's state forest management is marked with successes, controversy, strong personalities, and stewardship of the state's natural resources. The Montana Department of Natural Resources and Conservation (DNRC) is the state agency responsible for managing the state's land and water resources. Within the DNRC, the Trust Land Management Division (TLMD) is responsible for the management of the state's lands, which were granted to Montana at statehood. The mission of the TLMD is to "manage the State of Montana's trust land resources to produce revenue for the trust beneficiaries while considering environmental factors and protecting the future income-generating capacity of the land." (MT DNRC 2008b) It is the mission of the TLMD that distinguishes it from its private and federal counterparts. This mission is predicated on balancing a short- and long-term view of active management, not unlike the view championed by Gifford Pinchot, the first chief of the U.S. Forest Service. In his autobiography, "Breaking New Ground" (1998: 30-32), Pinchot wrote about the necessity for active management of the nation's forests:



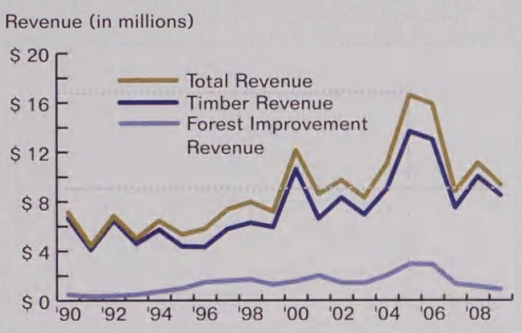
> "Forestry is Tree Farming. Forestry is handling trees so that one crop follows another. To grow trees as a crop is Forestry.
>
> Trees may be grown as a crop just as corn may be grown as a crop. The farmer gets crop after crop of corn, oats, wheat, cotton, tobacco, and hay from his farm. The forester gets crop after crop of logs, cordwood, shingles, poles, or railroad ties from his forest, and even some return from regulated grazing.
>
> Farmer and forester alike get a lot of other products on the side. Good farming yields also such things as butter, eggs, apples, calves. Good Forestry, in addition to lumber, firewood, and other produce, yields such services as regulation of stream flow, protection against erosion, and some influence on climate.
>
> A well-handled farm gets more and more productive as the years pass. So does a well-handled forest.
>
> On a badly handled farm, contrariwise, production decreases, the soil washes or blows away, floods are encouraged, and not only the farmer, but also the public interest, suffers loss. The same is true in general of a badly handled forest, except that damage to the public interest is wider and worse.
>
> The purpose of Forestry, then, is to make the forest produce the largest possible amount of whatever crop or service will be most useful, and keep on producing it for generation after generation of men and trees. And the more you think about the services of the forest, the more you understand them, the more essential they appear. It is true indeed that the forest, rightly handled – given the chance – is, next to the earth itself, the most useful servant of man."

Charles Jungberg

Charles Jungberg of Kalispell was appointed as the first state forester by Governor Edwin Norris in 1910. Before his appointment, he worked as a logging foreman for a lumber company. According to Moon (1991:36-47), Some of Jungberg's accomplishments include: securing an inventory of the state's forest lands; championing conservation of the state's forest resources and warning of a timber famine; recommending increasing the number of fire wardens and assigning them based on watersheds; and warning of the threats of insects and disease to the state's forests. Jungberg's concern from 1912 over pine beetle infestations rings true today (Moon 1991:40).

> "It was discovered a few years ago that insect disease is slowly gaining a stronghold in some districts of our state. In two counties of the state, Rocky Mountain Pine Beetle has made its appearance. It is most destructive of all species, and if left to multiply will ultimately destroy a large portion of our pine forests. So far the beetle has killed a large amount of Lodgepole pine, a larger amount than any other, but recently the invasion has spread to White pine."

Figure 4
State Forest Timber Revenue



Source: Montana Department of Natural Resources and Conservation.

Montana will cease. This scenario, though not likely, highlights the proximity to the possible end of an industrial era.

Managers of working forests are as wary of this as those managing the industry. That is why DNRC is looking into the alternative possibilities for state forests to remain working forests into the next 100 years. Examples of post-industry forest management in other Rocky Mountain states suggest alternative working forests don't exist yet or are too small to utilize any significant volume of wood. Would things be different in Montana?

Future of State Forest Management

What happens in Montana will largely depend on timing. That's because if they're not around today, alternative markets that utilize forests will very likely be around tomorrow. The reason for this has everything to do with energy and scarcity in nonrenewable resources. Ultimately, wood represents a renewable energy, whether potential or kinetic, and as global demand for energy rises through the 21st century, so too will demand for substitutes to fossil fuels.

As an example, the political and market forces that brought rise to the corn ethanol industry, though with great setback, demonstrate how quickly the energy marketplace can shift. The equivalent prototypes for wood-based energy markets are plenty, and they're currently proving themselves on smaller scales.

The most prevalent of these markets, which are starting to operate in Montana, include producers of electricity and heat. Single-function biomass power plants are more sensitive to supply and demand issues than dual-function plants. Site location requires an adequate and sustainable fuel supply as well sufficient electricity purchase agreements. In the right circumstances, however, these facilities can provide an affordable and critical offset to coal-fired power (Forest Products Laboratory, 2004). Co-combustion represents a more successful variation of this kind of plant. In the European Union, over 100 co-combustion plants use a process where woody biomass is mixed in with coal before firing (EUBIA 2004). A third variation of the woody biomass power plant, co-gen plants, exists more commonly in the United States. Co-gen plants simultaneously produce electricity and heat. Heat energy in these facilities is either used internally for other industrial functions or for distribution to adjacent industrial or residential areas.

A secondary market, not currently present in Montana, excluding pellet production, is biorefining. Biorefineries, such as ZeaChem based in Colorado, produce a variety of solid, liquid, and gas staged fuels which can be packaged or distributed and sold for heating, transportation, or industrial applications. Biorefining is generally more sophisticated than power production in that it requires more inputs, processing, scientific staffing, and market infrastructure. This fundamental difference makes a biorefining industry more challenging in terms of startup but more appealing in terms of jobs and other positive economic impacts.

Aside from energy markets, there are a number of environmental and ecosystem service market concepts that may soon use Montana's forest resources. One of these already open for business is the Chicago Climate Exchange (CCX 2007). CCX is a voluntary carbon emissions trading market. Buyers of carbon emission credits on CCX do so for charity or tax purposes. Sellers receive cash payments for their verified offsets. For public entities to engage

in transactions on CCX, states must first become members. Montana is not currently a member of CCX, in part because of the substantial energy and carbon audit required in application to becoming a member state. CCX is noted for being the likely model for a national carbon emissions trading market. If and when this happens, Montana's working forests may or may not be capable of earning offset carbon credits, depending on how the market is defined legally by the federal government. Currently, if Montana were to become a member state of CCX, state forests would be eligible for selling offsets to the market. The amount of revenue this would earn would not sustain forest management or provide significant funding to school trusts, however. The smaller scale of ecosystem markets keeps them in place as a complement to traditional wood product and energy markets, as opposed to a likely substitute.

For Montana's state forests, a lot has to happen before an alternative market will be capable of supporting a working forest model on its own. The equivalent of $8 million to $10 million worth of business in either energy or environmental markets would represent an unprecedented scale for either industry, but it's not impossible. It will take the right kind of political and market momentum, and of course time.

Conclusion

Until alternative markets become economically viable, it remains in the public interest to continue practicing forestry as Gifford Pinchot, the first chief of the U.S. Forest Service, so eloquently argued in 1947 (see sidebar, page 16). The benefits from the practice of forestry include retention of jobs that pay well, continued generation of income for the state, private landowners, and mill owners alike, protection of watersheds, and maintenance of infrastructure necessary to be able to manage the current forest health crisis decimating the state's pine forests. Kamps et al. (2008) have documented the negative impacts that the spruce budworm, the Douglas-fir beetle, and the mountain pine beetle have had on the Helena, Gallatin, and Beaverhead-Deerlodge national forests. Current infestation levels on the Helena National Forest are estimated at greater than 380,000 acres (one-third of the forest), with expected mortality at greater than 90 percent of the pine trees. If the state were to see the wood products infrastructure completely leave the state, the ability to manage the current and future insect and disease outbreaks would be cost prohibitive for many landowners, which would further affect fuel loads in the forests and increase the risk of catastrophic wildfires.

The forestry profession in Montana has had a successful run for the first 100 years – providing credible evidence to support Kemmis' (2001) theoretical model for how a new Region 7 of the Forest Service could be structured and managed. Benefits of sound forest management on state trust lands have included jobs, healthy forests, manufacturing of wood products, recreation opportunities, and maintenance of fish and wildlife habitat. The keys to maintaining healthy forests in the future include ongoing development of a professional workforce, facilitating a vibrant and diverse wood products industry, ongoing research and development of sound, scientific management principles, and public support from Montanans who live, work, and recreate in Montana's forests.❑

Tom Schultz lives in Helena and has worked as a natural resource manager for the past 12 years. Jordan Larson is a forest economist in Missoula.

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Montana's Labor Pool

More Workers than Anticipated Available to Fill Jobs

by John Baldridge

With Montana's median wage rate over $2 an hour lower than the national median wage rate, it should not be surprising that nearly half of the state's workforce is willing to switch jobs in order to earn more money.

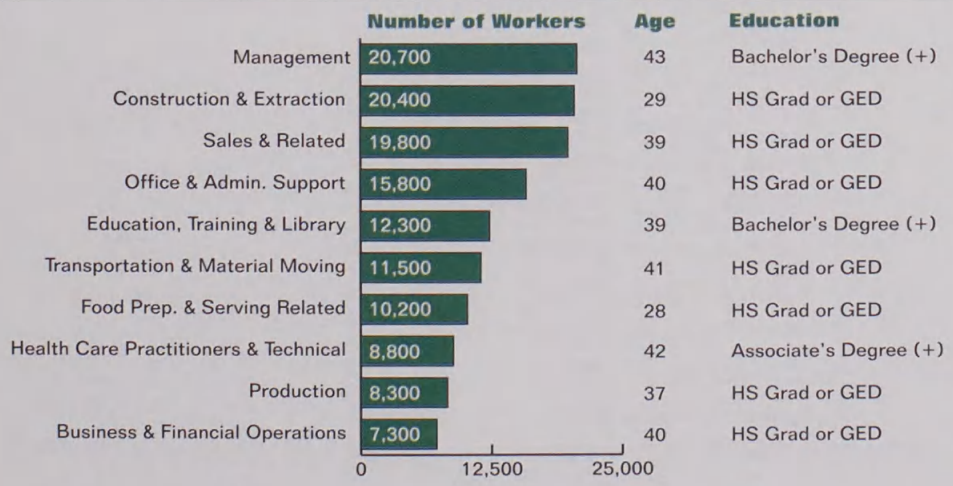
Montana housed 260,900 adult workers in 2008 who were employed and willing to switch jobs or take a second job, or who were unemployed and willing to work, according to BBER's Montana Labor Market Analysis Survey. More than half of these workers said the main reason they were willing to look for a new job was to seek an increase in pay. This makes sense given that Montana's median wage rate was $13.41 an hour compared to the national rate of $15.57. Workers in occupations like the construction trades, which felt the initial wave of the recession in 2008, also were probably motivated to switch jobs.

This labor pool, available to staff business expansions or to replace turnover, is significantly larger than well-known statistics like the unemployment rate would suggest. However, a few labor shortages may still exist in specific occupation categories and labor market areas within the state. The data presented here provide some evidence that there may be localized shortages in some health care occupations. In addition to its surprising size, Montana's available labor supply is diversified across a wide spectrum of occupations. Much of Montana's available labor force is also in its prime working years.

Statewide Available Labor Supply

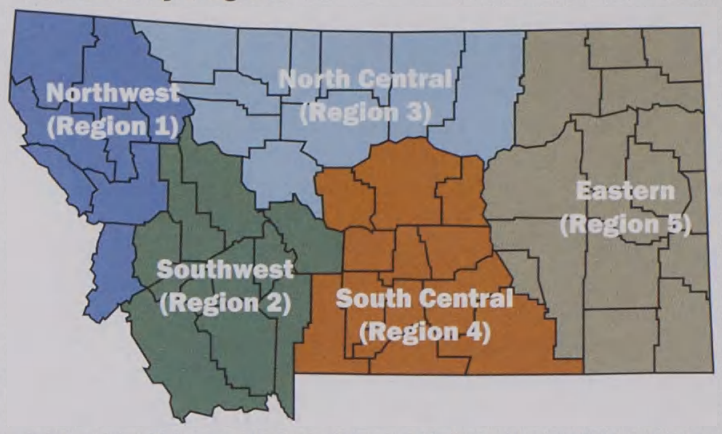
About 20,700 Montanans work as managers in businesses, nonprofits, or government organizations. This is the largest group of occupational specialties in Montana's available labor supply (Figure 1). Very nearly the same number of available workers – about 20,400 – work in construction trades or drilling and mining occupations. If people who are available to work in material moving occupations, like heavy equipment operators or dump truck drivers, are added to the construction and extraction occupations, this combined category would be

Figure 1
Available Labor Supply by Occupational Category, Age, and Educational Attainment, Montana



Source: BBER Labor Market Analysis Survey, 2008.

Figure 2
Montana by Region



Northwest (Region 1) Lincoln, Sanders, Mineral, Missoula, Ravalli, Flathead, and Lake
Southwest (Region 2) Granite, Powell, Lewis and Clark, Meagher, Broadwater, Jefferson, Silver Bow, Deer Lodge, Beaverhead, Madison, and Gallatin
North Central (Region 3) Glacier, Toole, Liberty, Hill, Blaine, Phillips, Pondera, Teton, Choteau, and Cascade
South Central (Region 4) Judith Basin, Fergus, Petroleum, Wheatland, Golden Valley, Musselshell, Park, Sweet Grass, Stillwater, Carbon, Yellowstone, and Bighorn
Eastern (Region 5) Valley, Daniels, Roosevelt, Sheridan, Garfield, McCone, Richland, Dawson-Prairie, Wibaux, Rosebud, Custer, Fallon, Treasure, Powder River, and Carter

Source: BBER Labor Market Analysis Survey, 2008.

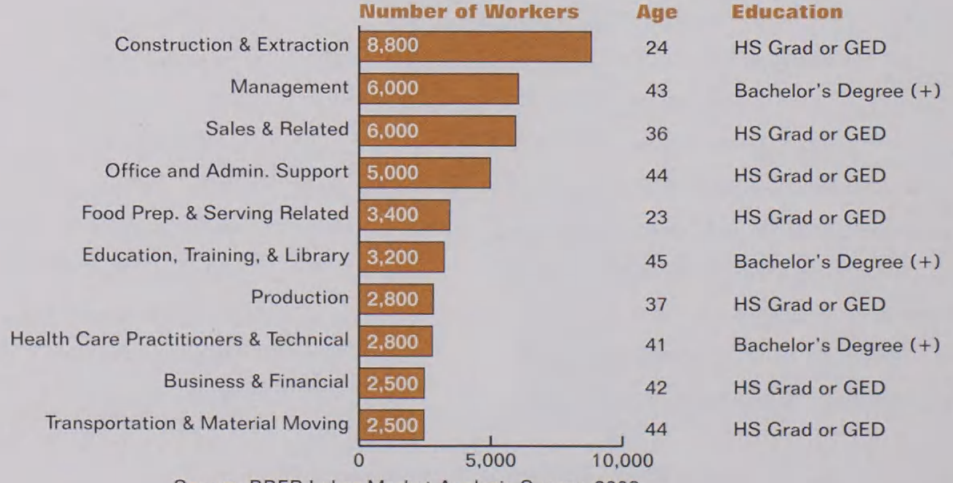
the largest. Workers in sales, office and administrative occupations, and education round out the top five occupation categories in Montana's available supply.

Health care occupations deserve special mention when describing the breadth of Montana's available labor supply. About 8,900 people are available in Montana to work in health practitioner and technical occupations. Another 7,100 are available to work in health care support occupations like nurses aids. If these categories are combined, health care occupations would rank 5th largest in Montana's available labor pool. This does not imply that there are no regional shortages of health care workers in the state.

Regional Available Labor Supply

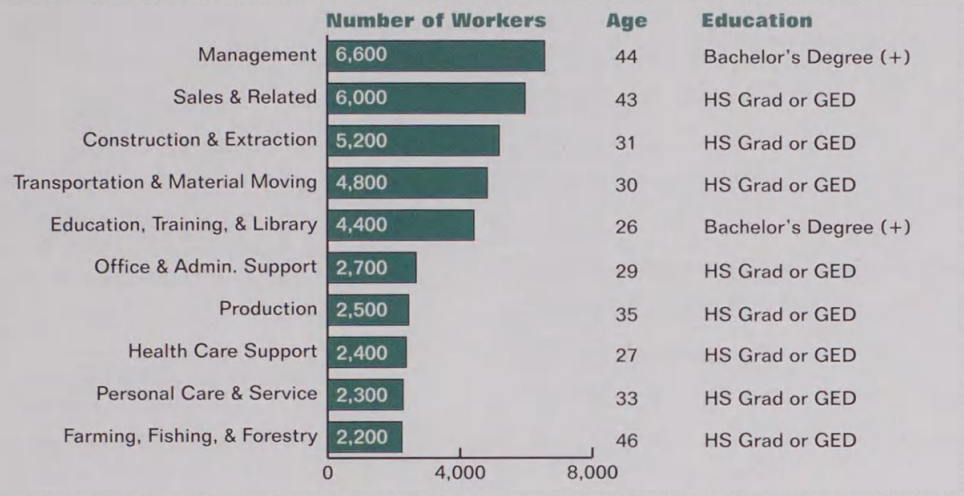
It is important to describe the available labor pool by region, since Montana is such a large state geographically. The state is divided into five labor market areas for analysis purposes (Figure 2). Figures 3 – 7 provide a graphical description of the size and occupational composition of the available labor supply in each of Montana's five labor market areas.

Figure 3
Available Labor Supply by Occupational Category, Age, and Educational Attainment, Northwest (Region 1)



Source: BBER Labor Market Analysis Survey, 2008.

Figure 4
Available Labor Supply by Occupational Category, Age, and Educational Attainment, Southwest [Region 2]



Source: BBER Labor Market Analysis Survey, 2008.

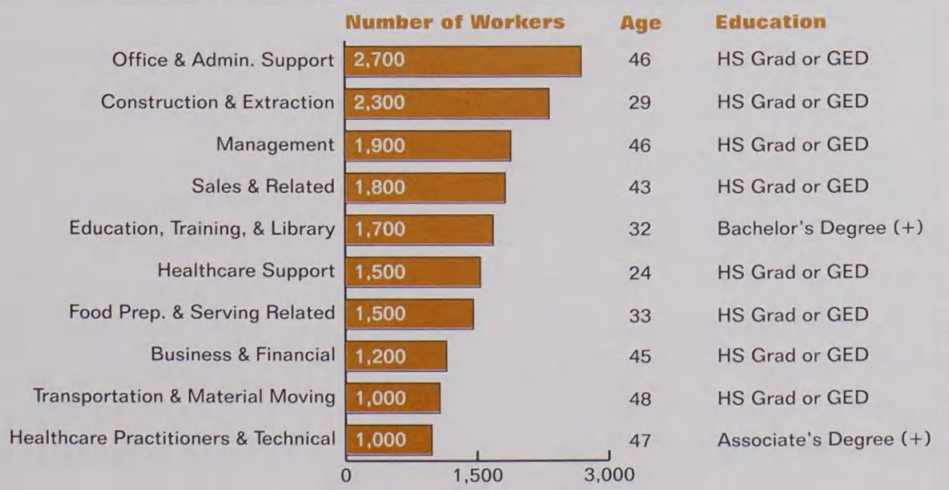
Two items become apparent when analyzing the regional available labor market charts. First, even though agriculture and forestry are large and vital industries in Montana, relatively few workers in agricultural and forestry occupations are available to staff worker turnover. Farming and forestry workers appear in the top 10 categories of the available labor pool only in Montana's southwestern labor market area (Region 2). Second, health care practitioners do not appear in the top 10 categories of the available labor supply of the southwestern labor market area (Region 2), and health care support workers do not appear in the top 10 categories of the available labor supply of the south central (Region 4) or eastern labor market (Region 5) areas. While these observations do not in themselves prove that a shortage of available health care workers exists in these regions, they are consistent with other reports from health care industry sources.

Age and Education

Montana's available labor force is, on average, in its 30s and 40s. As the baby boomer generation ages, the graying of Montana's available workforce may present businesses and institutions with significant challenges. However, this is not the case today when looking at Montana's statewide available labor supply.

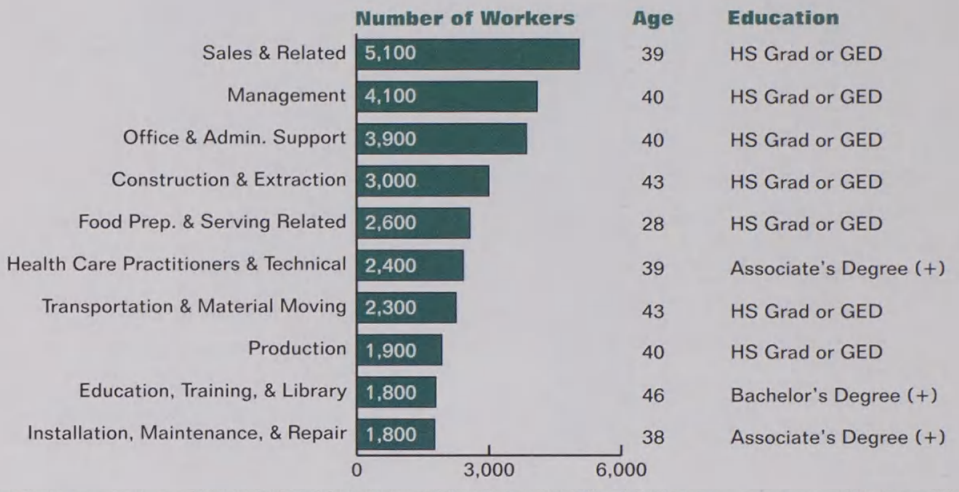
Aging of the available labor pool does appear in specific labor market areas in particular occupational categories. The

Figure 5
Available Labor Supply by Occupational Category, Age, and Educational Attainment, North Central [Region 3]



Source: BBER Labor Market Analysis Survey, 2008.

Figure 6
Available Labor Supply by Occupational Category, Age, and Educational Attainment, South Central [Region 4]



Source: BBER Labor Market Analysis Survey, 2008.

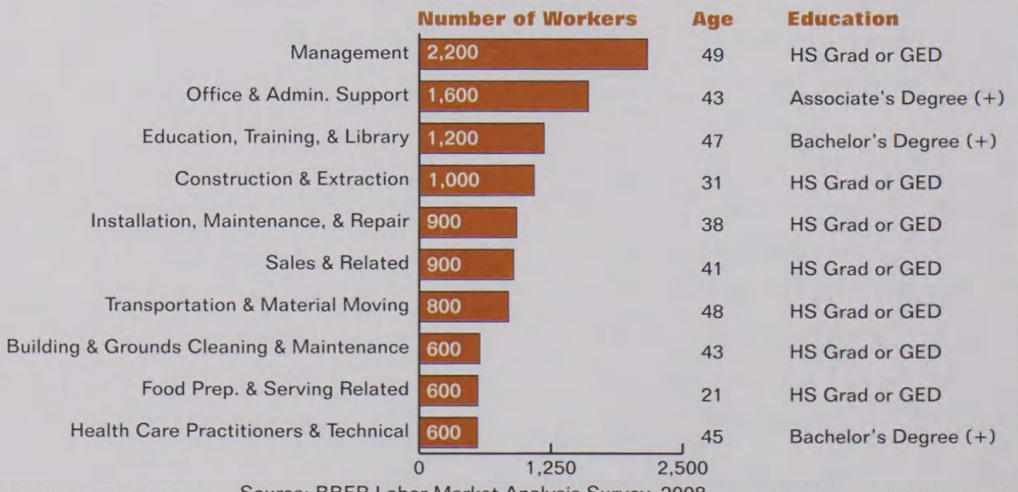
median age of available transportation and material-moving workers (heavy equipment operators) in Montana's north central (Region 3) and eastern (Region 5) labor market areas is 48 years old, while the statewide median age is 41 years old. This observation is consistent with comments made by construction industry trade organizations about the need to train replacement heavy equipment operators in Montana. Available workers in management occupations in Montana's eastern labor market area (Region 5) are also older (49 years old) than available managers statewide (43 years old).

Montana's 260,900 available workers, when examined as a whole and at the regional level, appear to have attained a level of education that is appropriate for their occupation. Statewide, workers in the available health care practitioner and technical category might appear at first glance to be undereducated. However, readers should keep in mind the large number of licensed practical nurses (LPNs) included in this occupational category. LPNs require an associate's degree. There are slightly more available LPNs in this category statewide than there are registered nurses or physicians.❑

John Baldridge is BBER's director of survey development.

BBER conducted this survey for Montana Department of Labor and Industry from January through December 2008. The survey used random sampling methods to obtain 6,267 completed telephone interviews with adult Montanans, including both landline and cell phone-only households. The overall margin of sampling error for this survey was +/- 1.5%. Sampling error rates for sub-samples of this study will be higher. The response rate for this survey was 41.4 % using the American Association for Public Opinion Research (2008) standard definition (RR3).

Figure 7
Available Labor Supply by Occupational Category, Age, and Educational Attainment, Eastern [Region 5]



Source: BBER Labor Market Analysis Survey, 2008.

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ECONOMIC RECOVERY

What's Ahead for Men and Women Workers?

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This year's keynote speaker, Wendy Stock, a professor at Montana State University's Department of Agricultural Economics and Economics, will discuss the recession's impacts, economic recovery, and workforce issues for men and women. As Montana heads toward economic recovery, it appears that the recession has had a disproportionate impact on men, with male job losses and unemployment rates much higher for men than women. Has the recession been a Man-cession? Are women more recession-proof than men? What's ahead for men and women workers?

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Schedule

7:45 - 8:00	Coffee and Registration
8:00 – 8:05	Introductions, Paul Polzin
8:05 – 8:45	Economic Recovery, Wendy Stock
8:45 – 9:15	National and State Outlooks, Patrick Barkey
9:15 – 9:30	Local Outlook, Paul Polzin
9:30 – 9:40	Coffee Break
9:40 – 10:00	Nonresident Travel, Norma Nickerson
10:00 – 10:20	Health Care, Gregg Davis
10:20 – 10:40	Agriculture, George Haynes
10:40 – 10:50	Coffee Break
10:50 – 11:10	Real Estate, Scott Rickard
11:10 – 11:30	Manufacturing and Forest Products, Todd Morgan
11:30 – 11:50	Chamber of Commerce Report, Local Speaker
11:50 – Noon	Break
Noon - 12:50 (lunch provided)	Luncheon Program
12:50	Closing Remarks

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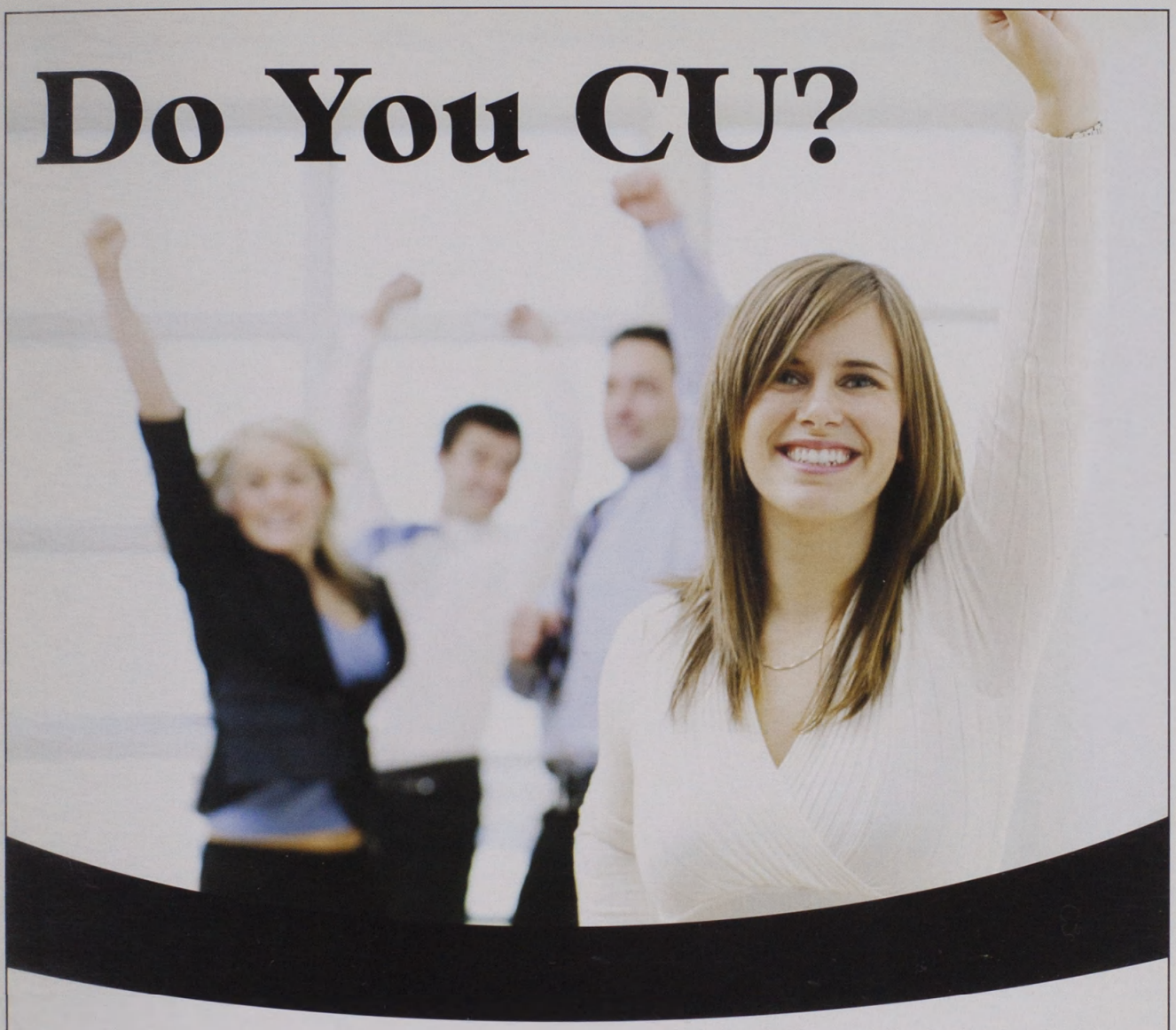

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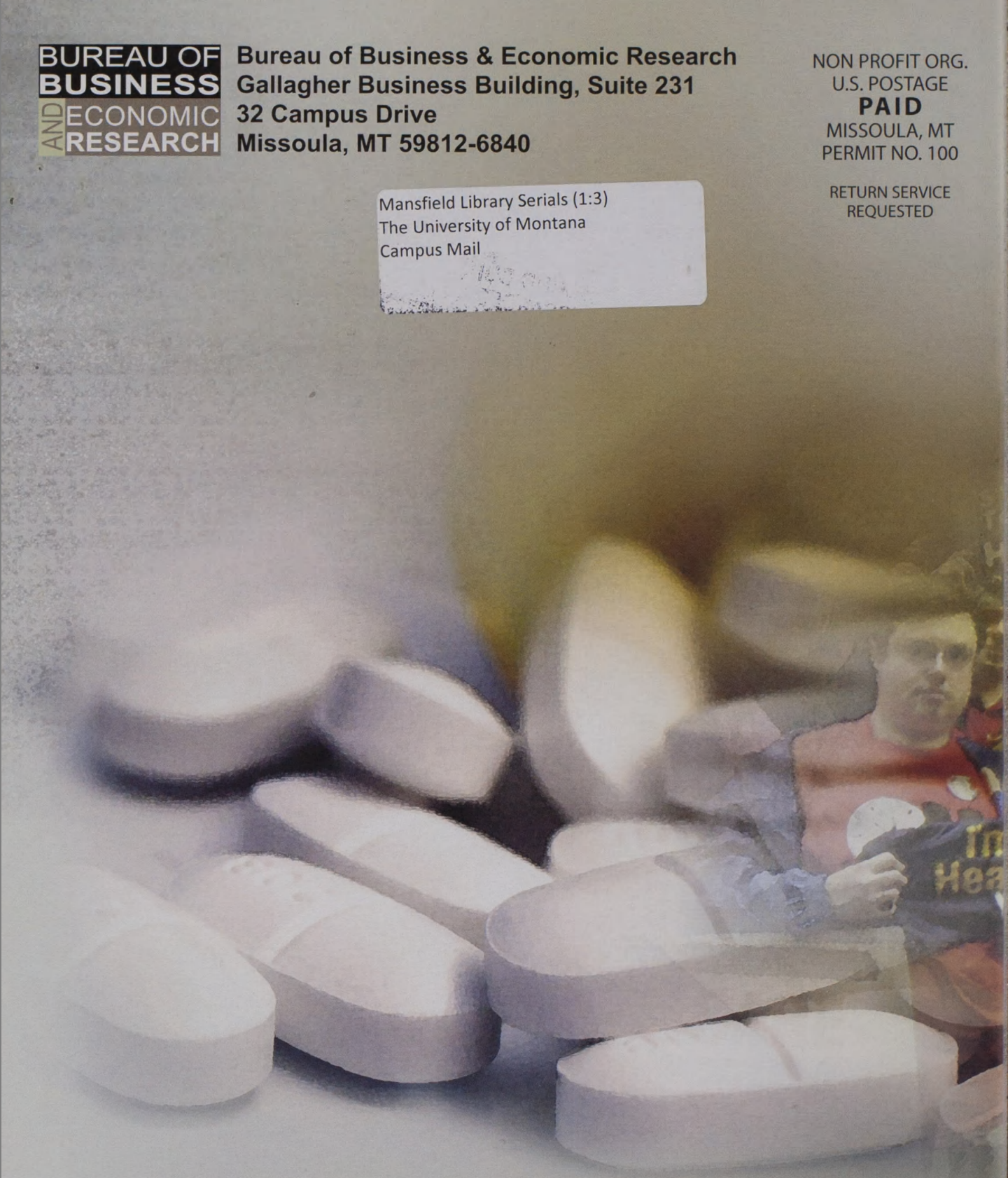

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